

Precision Ultrasonic Coating Technology for 40 Years

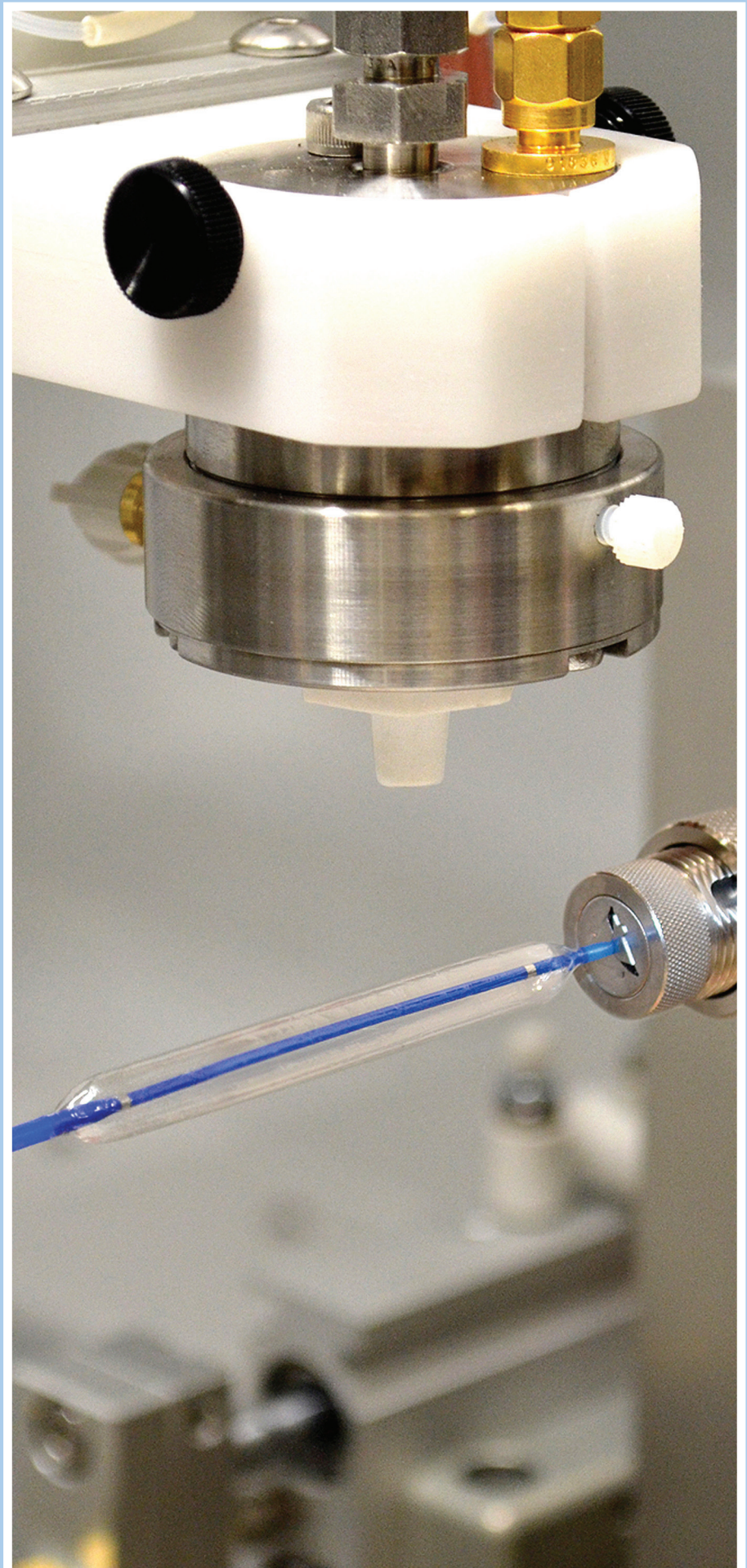
1975-2015

SONO•TEK CORPORATION

2015 marks Sono-Tek's 40th year in business, and we celebrate that milestone here as we discuss the fiscal year and the Company's outlook for the future.

Sono-Tek has seen continued growth and strengthening of its business in terms of sales, income, and cash on hand. We have used some of this cash to invest in a number of important upgrades to our manufacturing capability, as well as to develop additional products for new markets.

Fiscal Year 2015 saw steady income and growth in several of the markets we serve, including implantable stent and balloon coatings, and fuel cell manufacturing. Our food safety product developments have progressed well this year, and look promising to be an increasing factor in our future.



1975-2015

Corporate Highlights

- Continued growth in sales (+6%) and income before taxes (+34%)
- Cash and cash equivalents increased again this year
- Investments made in Lean Manufacturing, new tools, and plant upgrades for future productivity
- Several new product systems are in development aimed at expanding our markets in FY2016

Contents

BUSINESS FOCUS.....	IFC
CORPORATE HIGHLIGHTS	1
OVERVIEW	2-4
CHAIRMAN'S MESSAGE	5
MANAGEMENT'S DISCUSSION	6-10
INDEPENDENT AUDITOR'S REPORT	11
CONSOLIDATED FINANCIAL STATEMENTS	12-24
COMMON STOCK	24
CORPORATE DIRECTORY	25



Significant Press Releases

Sono-Tek Announces Sale to Advanced Animal Diagnostics - Published January 29, 2015

Excerpt: Sono-Tek announces the sale of a precision ultrasonic coating system to Advanced Animal Diagnostics of Durham, N.C. The unit will be used for the application of animal diagnostic device manufacturing.

Sono-Tek Featured in Hudson Valley Manufacturing (HV Mfg) Magazine - Published January 15, 2015

Excerpt: Sono-Tek is a featured company in the Spring 2015 issue of Hudson Valley Manufacturing Magazine. HV Mfg focuses on manufacturing and high-tech industries in the Hudson Valley. See the issue online at: <http://www.councilofindustry.org/hvmfg>.

Sono-Tek Celebrates Our 40th Anniversary in 2015! - Published January 5, 2015

Excerpt: We are pleased to announce the Company's 40-year anniversary in 2015. Sono-Tek has delivered more than 10,000 ultrasonic coating systems around the world during the company's history.

Sono-Tek Balloon Coating Article in MDT Magazine - Published October 3, 2014

Excerpt: Sono-Tek's Application Engineering team published an article discussing the efficacy of drug eluting coatings for angioplasty balloon catheters (DCBs) using ultrasonic spray in the Sept/Oct Issue of Medical Design Technology Magazine and online, titled "Texturing Prospective with Ultrasonically Coated Balloon Catheters".

CEO Interview with CEO Chris Coccio in Chief Executive Magazine - Published September 25, 2014

Excerpt: The September/October issue of Chief Executive magazine features an interview with Sono-Tek CEO Chris Coccio regarding the use of cloud computing for Company IT functions. To read the full article, go to <http://chiefexecutive.net/cloudy-chance-rain-making>.

Sono-Tek to Implement LEAN Six Sigma Manufacturing Practices - Published July 28, 2014

Excerpt: Following training provided by WDINY, Sono-Tek has begun implementation of LEAN Six Sigma Manufacturing practices to increase efficiency and reduce lead time in our manufacturing operations. The intensive training program provided valuable tools and an in-depth understanding of how to maximize workflow capabilities.

Sono-Tek Corporation Announces New Clean Room Rated Laboratory Facility in China - Published July 18, 2014

Excerpt: Sono-Tek announces its first class 10,000 rated clean room laboratory for customers to conduct testing using Sono-Tek coating equipment. The facility is located in Guangzhou, China, and is operated by Sono-Tek's China Distributor, Unitak.

Video Interview with CEO Chris Coccio - Published June 17, 2014

Excerpt: CEO Chris Coccio was interviewed at the Marcum Microcap Conference held recently in New York City, and that four minute video can be seen at the following web address: <http://www.equities.com/media-gallery/277-dr-christopher-l-coccio-chairman-and-ceo-of-sono-tek-corp>. The video is aired on equities.com and outlines Sono-Tek's company overview, growth prospects, and FY2014 highlights.

Wall Street Journal Article Highlights SOTK - Published February 27, 2014

Excerpt: In an online article February 26th, the Wall Street Journal featured an interview with Chris Coccio, Sono-Tek's CEO, regarding the challenges small businesses face in exporting goods overseas. The article discusses Sono-Tek's success in exporting despite the dangers small companies fear of not getting paid. Dr. Coccio comments, "Without exporting, we would be one-third of our size."

Company Overview

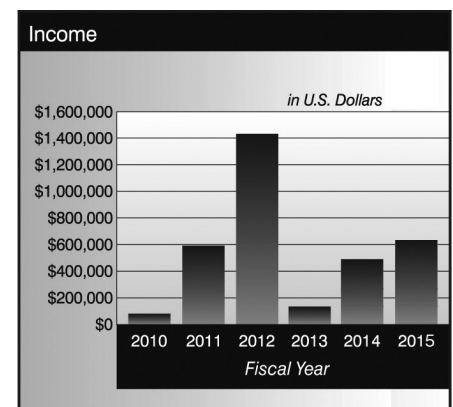
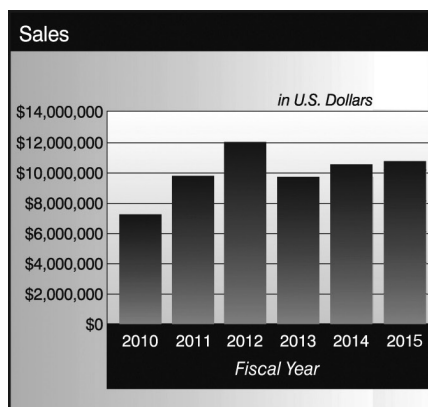
Sono-Tek, founded in 1975 and publicly traded on the OTCQX marketplace (OTCQX: SOTK), develops, manufactures and sells unique high-end ultrasonic spray coating systems to a broad portfolio of industries: *Electronics, Advanced Energy, Medical Devices, Glass, Textiles and Food*.

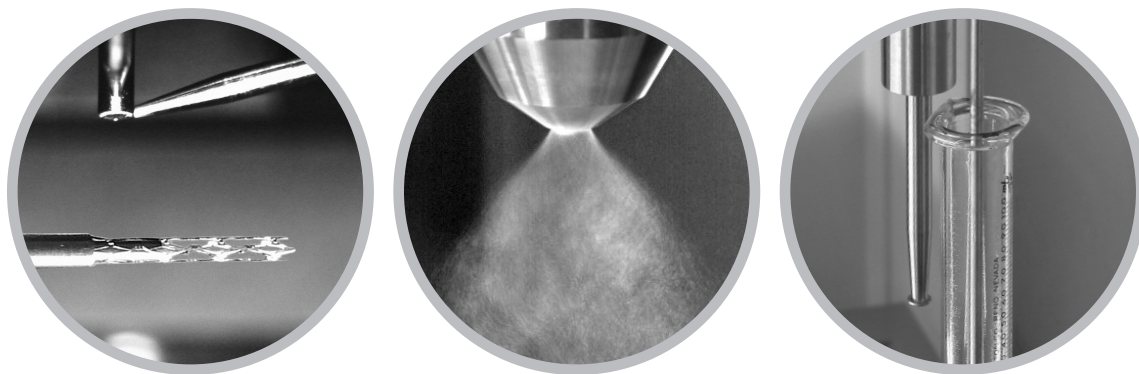
The Company is the world leader in the technology of ultrasonic atomization of liquids. Furthermore, the Company possesses comprehensive intellectual property, trade secrets and application expertise in this disruptive technology, which replaces conventional spraying systems in diverse applications. Sono-Tek's ultrasonic spray nozzle systems atomize low to medium viscosity liquids by converting electrical energy into mechanical motion in the form of ultrasonic vibrations that break liquids into very small and uniform droplets that can be applied with precision to surfaces at a low velocity.

Drivers such as the increasing costs of expensive liquid coating materials in various industries have caused numerous manufacturers to adopt Sono-Tek ultrasonic spray nozzle systems. Sono-Tek's coating application technology is often the preferred solution relative to that of its competitors because of its precise, controllable and environmentally friendly advantages. Sono-Tek's ultrasonic spray nozzles, with their characteristic fine mist spray, dramatically reduce overspray, thereby saving costly materials and minimizing atmospheric contamination. The Company's ultrasonic systems have created a broad range of new applications that could not have been achieved with conventional spraying systems. Many additional application possibilities have been identified and remain to be pursued.

Technology Leadership

The Sono-Tek engineering team is responsible for a continuous new product pipeline which has been the primary driver behind the Company's organic growth strategy over the past five years. The pipeline provides existing and new customers with ever-improving equipment and processes. Joint development projects with leading high-tech companies and research institutions, as well as various defense, energy and health agencies of governments from around the world, have led to the production of a portfolio of next generation ultrasonic spray coating systems for electronics, energy, medical, industrial, nanotechnology and a wide range of thin film applications.





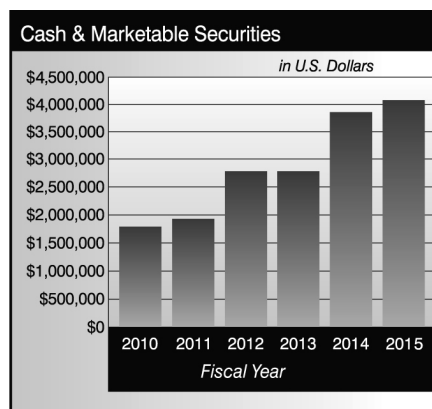
Highlights

Fiscal Year 2015 (March 2014 - February 2015) continued our successful growth in revenues, operating income, and cash reserves. We note that we are celebrating our fortieth year in business, and are the pioneer and inventor of ultrasonic spraying and coating for precision applications. Our strategy has been to continue the introduction of ultrasonic spraying and coating technology to new market applications year by year. In this way, we intend to create stabilizing diversity in both markets and geography. This approach has served us well. We have created a strong organization backed up with the financial reserves that allows us to develop products and systems for new markets of interest, and we have also upgraded our production equipment and facilities as we move to implement Lean Manufacturing. Our goal is to continue to outpace competition by combining our superior technology with the fastest delivery times and quality levels in the industry. We believe we will remain the number one choice for customers through our deep understanding of this technology and its application to specific industries.

While our main approach has been and will be based on organic growth, we also maintain awareness of possible strategic additions to our business. We also explore opportunities to marry our technology with the technology strengths of other businesses.

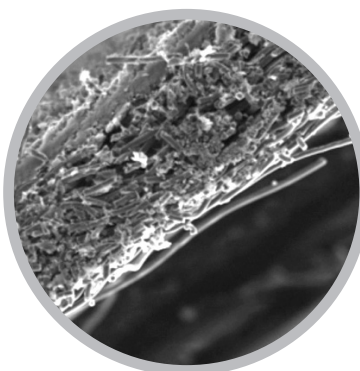
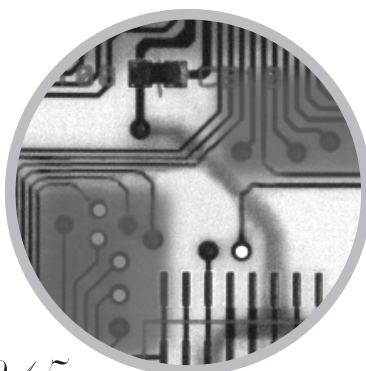
Stock Price

We have demonstrated significant and profitable growth, tripling over the past decade, with a strong balance sheet. However, Sono-Tek has a small public float and the Company has not been adequately followed by public market investors. As a result, our public market valuation at times does not necessarily reflect the value associated with our proprietary technology, unique products, and substantial growth potential. Our cash reserves alone are approximately 30% of the recent stock price. We have taken steps this past year to bring our story to potential investors by presenting at conferences, increasing relevant press releases, and holding conference calls. In the final analysis, we believe the market responds to companies such as ours that demonstrate profitable growth over time.



Market Overview

Electronics & Advanced Energy	
Spray Fluxing SonoFlux	<ul style="list-style-type: none"> A core business for Sono-Tek. Industry leading line of fluxers focused on North America, Europe and Asia. Stable source of revenues and profits due to our leadership position and geographical footprint, which can adapt to changes in our customer geographical production mix.
Clean Energy (Fuel Cells/Solar Cells) ExactaCoat & FlexiCoat	<ul style="list-style-type: none"> Solar energy remains slow, but fuel cell applications have grown over the past year. ChemCoat successfully tested with partner, but solar market decline and changes require seeking other applications for it
Semiconductor	
MEMs Nozzle Systems	<ul style="list-style-type: none"> Steady growth of both sales and application knowledge. Steady sales to main customers in Europe and Asia.
Photoresist and Sensors XYZ Systems	<ul style="list-style-type: none"> New photoresist system planned for field trials in 2015. Multiple sensor technology machines implemented for biometrics applications. Related sensor applications on the rise.
Glass	
Float Glass Coating WideTrack	<ul style="list-style-type: none"> Slowdown in this market after a strong preceding year. Fiscal Year 2016 looks to be strong again for glass lines.
Lens Coatings XYZ Systems	<ul style="list-style-type: none"> Eyewear, sunglasses, camera lenses, microscopes, visors. Anti-reflective, anti-scratch, anti-smudge, UV, photoresist. Strong year in these applications.
Display Glass Coating WideTrack/XYZ Systems	<ul style="list-style-type: none"> Handheld devices such as tablets and phones show multiple application successes for Sono-Tek technology.
Medical Devices	
Drug Coated Balloons & Balloon Catheters MediCoat BCC	<ul style="list-style-type: none"> Similar customer base to that of stent coating products. Heparin, Paclitaxel, Rapamycin, Aspirin, lubricious, hydrophobic coatings. Steady year for revenues and profits with new machine.
Stent Coating MediCoat Series	<ul style="list-style-type: none"> Cardiovascular, peripheral, sinus and other stents. Capitalize on existing customers as they ramp up production. New MediCoat DES3000 was successful and contributed to our growth in this market segment.
Other Medical MediCoat, ExactaCoat/ FlexiCoat & WideTrack	<ul style="list-style-type: none"> Includes areas such as blood collection tubes, well plates, cell culture growth, protein, reagents, diagnostic devices, and spray drying nozzles. Partnership with <i>BUCHI</i> showing steady performance with growth potential ahead.
Food & Textiles	
Food Safety/Coating Technology WideTrack	<ul style="list-style-type: none"> Antimicrobials, nutraceuticals, flavorings onto food products - meats and cereals. Noticeable contributor to our performance and on the upward swing with new customers on three continents now.
Advanced Textiles WideTrack	<ul style="list-style-type: none"> Antimicrobials, water/oil repellent, fire retardant, fragrances. Innovative work with partner firm has led to several significant orders for next generation textile manufacturing technology and potential for growth in the Fiscal Year 2016.



2015 Chairman's Message

We at Sono-Tek believe that we have demonstrated a successful business approach to introducing a disruptive technology to industrial spraying and coating markets. Many of our customers previously used pressure-based nozzles for their coating applications involving lighter viscosity liquids. Our mission has been to educate them to the advantages of substituting ultrasonic atomization nozzles in their applications. The list of successful applications gets longer every year, as we pioneer new applications for our technology. The first application, and still a core business, was for applying fluxes in circuit board manufacturing. Next came precision coating of implantable medical devices, an area that continues to grow in size and scope. We now have added glass coatings, advanced energy coatings, food safety coatings, and advanced textile coatings to the mix, and are far from complete.

Each of these applications has been successful through the marriage of our core technology, a total system design, and acquired application expertise. Customers need a complete solution in order to change a working approach to a new one. The promise is there for them to increase quality and output, combined with a reduction in environmental emissions due to overspray associated with pressure based nozzles. The life cycle cost is dramatically reduced and the payback can be in as little as one or two years with ultrasonic spraying and coating systems.

We have grown as a result, tripling over the past decade. With the organic growth we've experienced over the past several years, we have announced a "20/20 Vision" growth goal for Sono-Tek to reach \$20 million in revenue in 2020. As we progress toward this goal our continuing organic growth has called for investments in plant and facility, machine tools, and personnel. This past year has seen the largest infrastructure investment in our history. Fortunately, we purchased the industrial park where our Company is based several years ago, affording us the expansion space we have needed and will need as we grow. Of course our team has grown as well, and we are fortunate to have so many talented and dedicated people working here at creating the future. We look forward to the continued pursuit of our mission at Sono-Tek, and fully expect that it will lead to enhanced financial performance as well.

Sincerely,

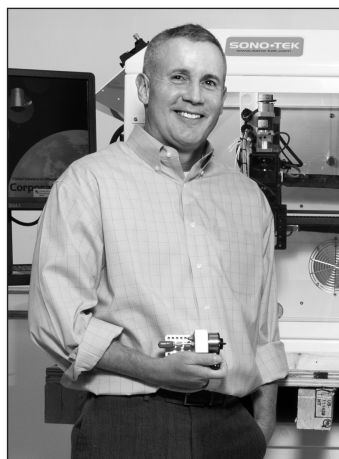


Christopher L. Coccio, Ph.D.
Chairman and CEO

July 13, 2015



Dr. Christopher Coccio
CEO



Stephen Harshbarger
President

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Forward-Looking Statements

We discuss expectations regarding our future performance, such as our business outlook, in our annual and quarterly reports, press releases, and other written and oral statements. These "forward-looking statements" are based on currently available competitive, financial and economic data and our operating plans. They are inherently uncertain, and investors must recognize that events could turn out to be significantly different from our expectations. These factors include, among other considerations, general economic and business conditions; political, regulatory, competitive and technological developments affecting our operations or the demand for our products; timely development and market acceptance of new products; adequacy of financing; capacity additions, the ability to enforce patents and the ability to achieve increased sales volume and continued profitability.

We undertake no obligation to update any forward-looking statement.

Overview

We have developed a unique and proprietary series of ultrasonic atomizing nozzles, which are being used in an increasing variety of electronics, advanced energy (solar and fuel cells), medical device, glass, textiles and food applications. These nozzles are electrically driven and create a fine, uniform, low velocity spray of atomized liquid particles, in contrast to common pressure nozzles. These characteristics create a series of commercial applications that benefit from the precise, uniform, thin coatings that can be achieved. When combined with significant reductions in liquid waste and less overspray than can be achieved with ordinary pressure nozzle systems, there is lower environmental impact and lower energy use.

Market Diversity

During the past five years we have invested significant time, monies and efforts to enhance our market diversity. Based on our core ultrasonic coating technology, we increased our portfolio of products, the industries we serve and the countries in which we sell our products.

Today we serve six major industries: electronics, advanced energy (solar and fuel cells), medical device, glass, textiles and food.

In recent years, a substantial portion of our sales originated outside the United States, and we are geographically present directly and through distributors and trade representatives in North and Latin America, Europe and Asia. The infrastructure upon which this diversified market approach is based, includes a newly equipped process development laboratory, a strengthened sales organization with application engineers, an engineering team with additional talent and the latest, most sophisticated design software tools, as well as an expanded, highly trained installation and service organization.

The new products which we have introduced, the new markets that we have penetrated, and the regions in which we now sell our products, are a strong foundation for our future sales growth and enhanced profitability.

Liquidity and Capital Resources

Working Capital – Our working capital increased \$518,000 from a working capital of \$4,753,000 at February 28, 2014 to \$5,271,000 at February 28, 2015. The increase in working capital is due to: net income of \$606,000, offset by cash expenditures of \$22,000 for patent and other asset costs, \$357,000 for the purchase of equipment and furnishings and \$160,000 for the repayment of notes payable. In addition, we incurred non-cash expenses for depreciation and amortization expense of \$408,000 and stock based compensation expense of \$43,000. The Company's current ratio was 3.5 to 1 at February 28, 2015 as compared to 3.6 to 1 at February 28, 2014.

At February 28, 2015, our working capital includes \$2,563,000 of cash and \$1,652,000 of marketable securities as compared to \$3,232,000 of cash and \$631,000 of marketable securities at February 28, 2014.

Stockholders' Equity – Stockholders' equity increased \$649,000 from \$6,495,000 at February 28, 2014 to \$7,144,000 at February 28, 2015. The increase in stockholders' equity is the result of the current year's net income of \$606,000 and stock based compensation of \$43,000.

Operating Activities – Our operating activities provided \$924,000 of cash for the year ended February 28, 2015 as compared to providing \$1,668,000 for the year ended February 28, 2014. During the year ended February 28, 2015, we had net income of \$606,000, accounts receivable increased \$180,000, inventories increased \$484,000, prepaid expenses and other assets decreased \$66,000, accounts payable and accrued expenses increased \$155,000, customer deposits increased \$99,000 and income taxes payable increased \$100,000. In addition, we incurred non-cash expenses of \$408,000 for depreciation and amortization, \$43,000 for stock based compensation expense, \$100,000 for inventory reserve and \$11,000 for allowance for accounts receivable.

Investing Activities – For the year ended February 28, 2015, our investing activities used \$1,401,000 of cash as compared to providing \$65,000 for the year ended February 28, 2014. In 2015 and 2014, we used \$357,000 and \$224,000, respectively, for the purchase or manufacture of equipment, furnishings and leasehold improvements. In 2015 and 2014, we used \$22,000 and \$56,000, respectively, for patent application and other asset costs. In 2015, we used \$1,022,000 for the purchase of marketable securities as compared to proceeds of \$345,000 from the sale of marketable securities in 2014.

Financing Activities – For the year ended February 28, 2015, we used \$193,000 in our financing activities as compared to using \$443,000 of cash for the year ended February 28, 2014. In addition, we made repayments of notes payable of \$193,000 and \$2,043,000 in 2015 and 2014, respectively. During the year ended February 28, 2014, we had proceeds of a note payable for \$1,600,000 for the refinancing of the industrial park in which our operations are located.

Net Decrease in Cash – For the year ended February 28, 2015, our cash balance decreased by \$669,000 as compared to an increase of \$1,291,000 for the year ended February 28, 2014. During the year ended February 28, 2015, our operations provided \$924,000 of cash, we used \$1,401,000 in our investing activities and \$193,000 in our financing activities.

Net Increase in Marketable Securities – For the year ended February 28, 2015, our marketable securities increased to \$1,652,000 from \$631,000 at February 28, 2014. The increase is due to additional investments that were made during the year.

Line of Credit and Note Payable – We currently have a revolving credit line of \$750,000 and a \$250,000 equipment purchase facility, both of which are with a bank. The revolving credit line is collateralized by all of the assets of the Company, except for the land and buildings. The line of credit is payable on demand and must be retired for a 30 day period once annually. As of February 28, 2015, we had no outstanding borrowings under the line of credit.

We had outstanding borrowings of \$20,000 under the equipment facility at February 28, 2015. The borrowing has a repayment term of 48 months and bears interest at 2.12% per annum.

We had outstanding borrowings under a note payable of \$1,458,000 at February 28, 2015. The note is payable over ten years and accrues interest at 4.15%. The note payable is secured by a mortgage on our land and buildings.

Results of Operations

Ultrasonic Spraying – Sales and Gross Profit:

Net Sales:

	Twelve Months Ended		Change	
	February 28, 2015	February 28, 2014	\$	%
Net Sales	\$10,758,000	\$10,202,000	\$556,000	5%
Cost of Goods Sold	5,634,000	5,545,000	89,000	2%
Gross Profit	<u>\$ 5,124,000</u>	<u>\$ 4,657,000</u>	<u>\$467,000</u>	10%
Gross Profit %	<u>48%</u>	<u>46%</u>		

For the year ended February 28, 2015, our sales increased by \$556,000 to \$10,758,000 as compared to \$10,202,000 for the year ended February 28, 2014, an increase of 5.4%. During the year ended February 28, 2015, we experienced an increase in sales of our nozzles and generators, XYZ units, fluxers and stent coating units. We did, however, see a decrease in sales of our WideTrack units, lead solder recovery systems and servo units.

Gross Profit:

Our gross profit increased \$467,000, to \$5,124,000 for the year ended February 28, 2015 from \$4,657,000 for the year ended February 28, 2014. Our gross profit margin percentage was 48% for the year ended February 28, 2015 compared to 46% for the year ended February 28, 2014. The increase in the current year's gross profit margin is due to increases in sales of our higher gross margin stent coaters, XYZ units and fluxer units.

Export Sales:

	Twelve Months Ended February 28,		Change	
	2015	2014	\$	%
Western Europe	\$ 2,069,000	\$ 1,817,000	\$ 252,000	14%
Far East	2,147,000	3,328,000	(1,181,000)	(35)%
Other	802,000	1,302,000	(500,000)	(38)%
Total Export Sales	<u>\$ 5,018,000</u>	<u>\$ 6,447,000</u>	<u>\$ (1,429,000)</u>	<u>(22)%</u>
Percentage of Total Sales	<u>47%</u>	<u>63%</u>		

For the year ended February 28, 2015, sales to customers located in European countries increased by \$252,000 or 14%, sales to customers located in Asian countries decreased by \$1,181,000 or 35% and sales to other non-based US customers decreased \$500,000 or 38%.

For the year ended February 28, 2015, sales to the Far East decreased by \$1,181,000. During the year ended February 28, 2014, our sales to the Far East included approximately \$800,000 of WideTrack equipment.

Operating Expenses:

	Twelve Months Ended February 28,		Change	
	2015	2014	\$	%
Research and product development	\$ 1,016,000	\$ 885,000	\$131,000	15%
Marketing and selling	\$ 2,153,000	\$ 1,958,000	\$195,000	10%
General and administrative	\$ 1,033,000	\$ 1,017,000	\$ 16,000	2%

Research and Product Development:

Research and product development costs increased \$131,000 to \$1,016,000 for the year ended February 28, 2015 as compared to \$885,000 for the year ended February 28, 2014. For the year ended February 28, 2015 we experienced increases in engineering salaries, engineering materials and depreciation.

During the year ended February 28, 2015, we expended approximately \$589,000 for engineering personnel as compared to \$552,000 for the year ended February 28, 2014. During the year ended February 28, 2015, we expended approximately \$172,000 for additional research, materials and product development as compared to \$118,000 for the year ended February 28, 2014. During the year ended February 28, 2015 we incurred approximately \$120,000 for depreciation expense as compared to \$89,000 for the year ended February 28, 2014.

Marketing and Selling:

Marketing and selling costs increased \$195,000 to \$2,153,000 for the year ended February 28, 2015 as compared to \$1,958,000 for the year ended February 28, 2014. For the year ended February 28, 2015, we experienced increases in commission expense, travel expense, and sales salaries.

During the year ended February 28, 2015, we expended approximately \$502,000 for commissions as compared to \$384,000 for the year ended February 28, 2014, an increase of \$118,000. During the year ended February 28, 2014, our sales included four large orders that originated in house by our internal sales staff with no external commissions.

During the year ended February 28, 2015, we expended approximately \$157,000 for travel expense as compared to \$121,000 for the year ended February 28, 2014, an increase of \$36,000. During the year ended February 28, 2015, salary expense was \$1,061,000 as compared to \$1,029,000 for the year ended February 28, 2014, an increase of \$32,000.

General and Administrative:

General and administrative costs increased \$16,000 to \$1,033,000 for the year ended February 28, 2015 as compared to \$1,017,000, for the year ended February 28, 2014. For the year ended February 28, 2015, we experienced decreases in salary expense and professional fees, these decreases were offset by an increase in stock based compensation expense.

Rental Real Estate Operations:

For the year ended February 28, 2015, our real estate operations generated \$92,000 in rental income from unrelated third parties as compared to \$77,000 for the year ended February 28, 2014. Our real estate operations incurred \$163,000 in operating expenses compared to \$155,000 for the prior year period and \$63,000 in interest expense compared to \$108,000 for the prior year period. For the year ended February 28, 2015, our real estate operations reported a net loss of \$134,000 compared to a net loss of \$186,000 for the prior year period. The reported losses exclude any inter-company rent.

A summary of our real estate operations is as follows:

	Twelve Months Ended February 28,		Change	
	2015	2014	\$	%
Statements of Operations				
Rental Income	\$ 91,650	\$ 76,665	\$ 14,985	20%
Real Estate Taxes	49,355	44,115	5,240	12%
Interest Expense	63,304	107,740	(44,436)	(41)%
Other Expenses	113,167	110,677	2,490	2%
Net Loss From Real Estate Operations.....	<u>\$ (134,176)</u>	<u>\$ (185,867)</u>	<u>\$ 51,691</u>	<u>28%</u>
Per Square Foot Cost Based on 50,000 sq. feet	<u>\$ 2.68</u>	<u>\$ 3.72</u>	<u>\$ 1.04</u>	<u>28%</u>
Statements of Cash Flows				
Net Loss	\$ (134,176)	\$ (185,867)	\$ (51,691)	(28)%
Adjustments to reconcile net loss to net cash used in real estate operations:				
Impaired Acquisition Costs	-	15,020	(15,020)	-
Depreciation	69,446	60,118	9,328	16%
Capital Improvements	(72,123)	-	72,123	-
Debt Service	(131,980)	(383,257)	(251,277)	(66)%
Net Cash (Used) in Real Estate Operations.....	<u>\$ (268,833)</u>	<u>\$ (493,986)</u>	<u>\$ (225,153)</u>	<u>(46)%</u>
Per Square Foot Cost Based on 50,000 sq. feet	<u>\$ 5.38</u>	<u>\$ 9.88</u>	<u>\$ 4.50</u>	<u>46%</u>

For the years ended February 28, 2015 and 2014, net cash outflows related to the industrial park were \$269,000 and \$494,000, respectively. These cash outflows are net of rental income and depreciation expense and include the principal payments on the industrial park's mortgage and the costs of capital improvements. Prior to purchasing the industrial park in December 2010, we had rental expense of approximately \$136,000 or \$7.14 per square foot.

Interest Income, Interest Expense and Income Taxes:

Interest income increased to \$33,000 for the year ended February 28, 2015 when compared to \$7,000 for the year ended February 28, 2014. Our present investment policy is to invest excess cash in highly liquid mutual funds. Our holdings are rated at or above investment grade.

Interest expense decreased to \$65,000 for the year ended February 28, 2015 as compared to \$110,000 for the year ended February 28, 2014. The decrease in interest expense is a result of the refinancing of the Industrial Park in December 2013.

We recorded income tax expense of \$219,000 for the year ended February 28, 2015 as compared to \$130,000 for the year ended February 28, 2014. As of February 28, 2015, we have no net operating loss deductions available to carry forward. The details of the current year's tax benefit are explained in Note 12 in our financial statements.

For the year ended February 28, 2015, we had net income of \$606,000 as compared to \$484,000 for the year ended February 28, 2014. The increase in our net income is due to an increase in our sales volume combined with an increase in our gross profit margin.

For the years ended February 28, 2015 and 2014, we do not believe that our sales revenue or net income has been adversely affected by the impact of inflation or changing prices.

Off - Balance Sheet Arrangements

We do not have any Off - Balance Sheet Arrangements as of February 28, 2015.

Critical Accounting Policies

The discussion and analysis of the Company's financial condition and results of operations are based upon the Company's consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires the Company to make estimates and judgments that affect the reported amount of assets and liabilities, revenues and expenses, and related disclosure on contingent assets and liabilities at the date of the financial statements. Actual results may differ from these estimates under different assumptions and conditions.

Critical accounting policies are defined as those that are reflective of significant judgments and uncertainties, and may potentially result in materially different results under different assumptions and conditions. As of February 28, 2015, management believes there are no critical accounting policies applicable to the Company that are reflective of significant judgments and or uncertainties.

Stock-Based Compensation

The computation of the expense associated with stock-based compensation requires the use of a valuation model. ASC 718 is a complex accounting standard, the application of which requires significant judgment and the use of estimates, particularly surrounding Black-Scholes assumptions such as stock price volatility, expected option lives, and expected option forfeiture rates, to value equity-based compensation. We currently use a Black-Scholes option pricing model to calculate the fair value of stock options. We primarily use historical data to determine the assumptions to be used in the Black-Scholes model and have no reason to believe that future data is likely to differ materially from historical data. However, changes in the assumptions to reflect future stock price volatility and future stock award exercise experience could result in a change in the assumptions used to value awards in the future and may result in a material change to the fair value calculation of stock-based awards. ASC 718 requires the recognition of the fair value of stock compensation in net income. Although every effort is made to ensure the accuracy of our estimates and assumptions, significant unanticipated changes in those estimates, interpretations and assumptions may result in recording stock option expense that may materially impact our financial statements for each respective reporting period.

Impact of New Accounting Pronouncements

All accounting pronouncements issued but not yet effective have been deemed to be not applicable or the adoption of such accounting pronouncement is not expected to have a material impact on the financials.

Report of Independent Registered Public Accounting Firm

Board of Directors and Stockholders
Sono-Tek Corporation

We have audited the accompanying consolidated balance sheets of Sono-Tek Corporation as of February 28, 2015 and 2014 and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of February 28, 2015 and 2014, and the results of its operations and cash flows for each of the years then ended, in conformity with generally accepted accounting principles in the United States.



LIGGETT, VOGT & WEBB, P.A.
Certified Public Accountants
New York, New York
May 21, 2015

SONO-TEK CORPORATION
CONSOLIDATED BALANCE SHEETS

	February 28,	
	2015	2014
ASSETS		
Current Assets:		
Cash and cash equivalents.....	\$ 2,562,782	\$ 3,232,021
Marketable securities	1,652,485	630,794
Accounts receivable (less allowance of \$43,047 and \$32,000, respectively) ..	1,029,250	860,296
Inventories, net	2,059,177	1,674,815
Prepaid expenses and other current assets	94,487	160,373
Total current assets.....	<u>7,398,181</u>	<u>6,558,299</u>
Land.....	250,000	250,000
Buildings, net.....	2,015,625	2,071,875
Equipment, furnishings and leasehold improvements, net	661,411	637,138
Intangible assets, net	175,412	171,828
Deferred tax asset	<u>90,021</u>	<u>90,021</u>
TOTAL ASSETS	<u>\$10,590,650</u>	<u>\$ 9,779,161</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable.....	\$ 584,963	\$ 556,194
Accrued expenses	691,937	565,121
Customer deposits	462,168	362,846
Current maturities of long term debt	158,184	191,466
Income taxes payable	<u>229,927</u>	<u>129,398</u>
Total current liabilities.....	<u>2,127,179</u>	<u>1,805,025</u>
Long term debt, less current maturities	<u>1,319,737</u>	<u>1,479,058</u>
Total Liabilities.....	<u>3,446,916</u>	<u>3,284,083</u>
Commitments and Contingencies	-	-
Stockholders' Equity		
Common stock, \$.01 par value; 25,000,000 shares authorized, 14,933,107 and 14,708,518 issued and outstanding, respectively	149,331	147,085
Additional paid-in capital.....	8,766,160	8,725,883
Accumulated deficit.....	<u>(1,771,757)</u>	<u>(2,377,890)</u>
Total stockholders' equity	<u>7,143,734</u>	<u>6,495,078</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY.....	<u>\$10,590,650</u>	<u>\$ 9,779,161</u>

See notes to consolidated financial statements.

SONO-TEK CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS

	February 28,	
	2015	2014
Net Sales	\$10,849,475	\$10,278,938
Cost of Goods Sold	5,634,365	5,545,471
Gross Profit	5,215,110	4,733,467
Operating Expenses		
Research and product development	1,015,614	885,101
Marketing and selling	2,153,407	1,957,960
General and administrative	1,033,373	1,017,043
Real estate operations expense	162,522	154,792
Total Operating Expenses	4,364,916	4,014,896
Operating Income	850,194	718,571
Other Income (Expense):		
Interest Expense	(64,527)	(110,151)
Interest Income	32,641	6,544
Other Income	7,249	-
Income before Income Taxes	825,557	614,964
Income Tax Expense	219,424	130,490
Net Income	<u>\$ 606,133</u>	<u>\$ 484,474</u>
Basic Earnings Per Share	<u>\$.04</u>	<u>\$.03</u>
Diluted Earnings Per Share	<u>\$.04</u>	<u>\$.03</u>
Weighted Average Shares – Basic	14,737,204	14,541,869
Weighted Average Shares – Diluted	14,846,808	14,580,165

See notes to consolidated financial statements.

SONO-TEK CORPORATION
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
YEARS ENDED FEBRUARY 28, 2015 AND 2014

	Common Stock Par Value \$.01		Additional	Accumulated	Total
	Shares	Amount	Paid – In Capital	Deficit	Stockholders' Equity
Balance – February 28, 2013	14,503,010	\$145,030	\$8,709,601	\$ (2,862,364)	\$5,992,267
Exercise of stock options	205,508	2,055	(1,845)	-	210
Stock based compensation expense ..	-	-	18,127	-	18,127
Net Income.....	-	-	-	484,474	484,474
Balance – February 28, 2014	14,708,518	\$147,085	\$8,725,883	\$ (2,377,890)	\$6,495,078
Exercise of stock options	224,589	2,246	(2,246)	-	-
Stock based compensation expense ..	-	-	42,523	-	42,523
Net Income.....	-	-	-	606,133	606,133
Balance – February 28, 2015	<u>14,933,107</u>	<u>\$149,331</u>	<u>\$8,766,160</u>	<u>\$ (1,771,757)</u>	<u>\$7,143,734</u>

See notes to consolidated financial statements.

SONO-TEK CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended February 28,	
	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Income	\$ 606,133	\$ 484,474
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	407,795	343,869
Stock based compensation expense.....	42,523	18,127
Inventory Reserve	99,535	(5,346)
Allowance for doubtful accounts	11,047	12,000
Write off of impaired acquisition costs	-	15,020
(Increase) Decrease in:.....		
Accounts receivable.....	(180,001)	68,736
Inventories.....	(483,897)	159,702
Prepaid expenses and other assets	65,886	(80,768)
(Decrease) Increase in:.....		
Accounts payable and accrued expenses	155,585	235,550
Customer deposits.....	99,322	294,000
Income taxes payable.....	100,529	123,067
Net Cash Provided by Operating Activities	<u>924,457</u>	<u>1,668,431</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of equipment, furnishings and leasehold improvements	(357,050)	(224,354)
Sale (Purchase) of marketable securities.....	(1,021,691)	345,116
Patent application and other asset costs.....	<u>(22,352)</u>	<u>(55,577)</u>
Net Cash (Used In) Provided by Investing Activities	<u>(1,401,093)</u>	<u>65,185</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from exercise of options	-	210
Proceeds from note payable – Bank.....	-	1,600,000
Repayment of long term debt	<u>(192,603)</u>	<u>(2,042,711)</u>
Net Cash (Used In) Financing Activities.....	<u>(192,603)</u>	<u>(442,501)</u>
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS.....	(669,239)	1,291,115
CASH AND CASH EQUIVALENTS:		
Beginning of year	<u>3,232,021</u>	<u>1,940,906</u>
End of year	<u>\$ 2,562,782</u>	<u>\$ 3,232,021</u>
Supplemental Cash Flow Disclosure :		
Interest Paid.....	<u>\$ 64,527</u>	<u>\$ 110,151</u>
Income Taxes Paid.....	<u>\$ 127,046</u>	<u>\$ 2,485</u>

See notes to consolidated financial statements.

SONO-TEK CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED FEBRUARY 28, 2015 AND 2014

NOTE 1: BUSINESS DESCRIPTION

The Company was incorporated in New York on March 21, 1975 for the purpose of engaging in the development, manufacture, and sale of ultrasonic liquid atomizing nozzles, which are sold world-wide. Ultrasonic nozzle systems atomize low to medium viscosity liquids by converting electrical energy into mechanical motion in the form of high frequency ultrasonic vibrations that break liquids into minute drops that can be applied to surfaces at low velocity.

Based on its core technology of ultrasonic liquid atomizing nozzles, the Company has developed intellectual property in the area of precision spray coating of liquids. The Company is presently engaged in the development, manufacture, sales, installation and servicing of diverse ultrasonic coating equipment for various manufacturing industries worldwide.

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES

Advertising Expenses – The Company expenses the cost of advertising in the period in which the advertising takes place. Advertising expense for the years ended February 28, 2015 and 2014 was \$168,090 and \$174,544, respectively.

Allowance for Doubtful Accounts – The Company records a bad debt expense/allowance based on management's estimate of uncollectible accounts. All outstanding accounts receivable accounts are reviewed for collectability on an individual basis. The bad debt expense recorded for the years ended February 28, 2015 and 2014 was \$17,000 and \$12,000, respectively.

Cash and Cash Equivalents – Cash and cash equivalents consist of money market mutual funds, short term commercial paper and short-term certificates of deposit with original maturities of 90 days or less.

Concentration of Credit Risk – The Company does not believe that it is subject to any unusual or significant risks, in the normal course of business. The Company had one customer, which accounted for 7% of sales during the year ended February 28, 2015. Two customers accounted for 25% of the outstanding accounts receivables at February 28, 2015. Three customers accounted for 27% of the outstanding accounts receivables at February 28, 2014.

Consolidation – The accompanying consolidated financial statements of Sono-Tek Corporation, a New York corporation (the "Company"), include the accounts of the Company and its wholly owned subsidiaries, Sono-Tek Cleaning Systems Inc. and Sono-Tek Industrial Park, LLC. Sono-Tek Cleaning Systems, Inc., a New Jersey Corporation ("SCS"), ceased operations during the Fiscal Year Ended February 28, 2002. Sono-Tek Industrial Park, LLC ("SIP"), operates as a real estate holding company for the Company's real estate operations.

Earnings Per Share – Basic earnings per share ("EPS") is computed by dividing net income by the weighted-average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock.

Equipment, Furnishings and Leasehold Improvements – Equipment, furnishings and leasehold improvements are stated at cost. Depreciation of equipment and furnishings is computed by use of the straight-line method based on the estimated useful lives of the assets, which range from three to five years.

Fair Value of Financial Instruments – The Company follows the guidance in the “Fair Value Measurements and Disclosure Topic” of the Accounting Standards Codification for assets and liabilities measured at fair value on a recurring basis. This guidance establishes a common definition for fair value to be applied to existing generally accepted accounting principles that require the use of fair value measurements, establishes a framework for measuring fair value and expands disclosure about such fair value measurements. The guidance defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Additionally, the guidance requires the use of valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. These inputs are prioritized below:

Level 1: Quoted prices in active markets.

Level 2: Observable market-based inputs or unobservable inputs that are corroborated by market data.

Level 3: Unobservable inputs for which there is little or no market data, which require the use of the reporting entity's own assumptions.

The fair values of financial assets of the Company were determined using the following categories at February 28, 2015 and 2014, respectively:

	Quoted Prices in Active Markets (Level 1)	
	February 28,	
	2015	2014
Marketable Securities	<u>\$1,652,485</u>	<u>\$ 630,794</u>

Marketable Securities include mutual funds of \$1,652,485 and \$630,794, that are considered to be highly liquid and easily tradeable as of February 28, 2015 and 2014, respectively. These securities are valued using inputs observable in active markets for identical securities and are therefore classified as Level 1 within the Company's fair value hierarchy.

Income Taxes – The Company accounts for income taxes under the asset and liability method. Under this method, deferred income taxes are recognized for the tax consequences of “temporary differences” by applying enacted statutory tax rates applicable to future years to differences between the financial statement carrying amounts and the tax basis of existing assets and liabilities. If it is more likely than not that some portion or all of a deferred tax asset will not be realized, a valuation allowance is recognized.

Intangible Assets – Include costs of patent applications which are deferred and charged to operations over seventeen years for domestic patents and twelve years for foreign patents. The accumulated amortization of patents is \$116,804 and \$105,585 at February 28, 2015 and 2014, respectively. Annual amortization expense of such intangible assets is expected to be \$9,600 per year for the next five years.

Inventories – Inventories are stated at the lower of cost or market. Cost is determined using the first-in, first-out (FIFO) method for raw materials, subassemblies and work-in-progress and the specific identification method for finished goods.

Land and Buildings – Land and buildings are stated at cost. Buildings are being depreciated by use of the straight-line method based on an estimated useful life of forty years.

Long-Lived Assets – The Company periodically evaluates the carrying value of long-lived assets, including intangible assets, when events and circumstances warrant such a review. The carrying value of a long-lived asset is considered impaired when the anticipated undiscounted cash flow from such asset is separately identifiable and is less than its carrying value. In that event, a loss is recognized based on the amount by which the carrying value exceeds the fair market value of the long-lived asset. Fair market value is determined primarily using the anticipated cash flows discounted at a rate commensurate with the risk involved.

Management Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

New Accounting Pronouncements – All new accounting pronouncements issued but not yet effective have been deemed to be not applicable to the Company. Hence, the adoption of these new accounting pronouncements once effective are not expected to have an impact on the Company.

Product Warranty – Expected future product warranty expense is recorded when the product is sold.

Reclassifications – Where appropriate, prior year's financial statements reflect reclassifications to conform to the current year's presentation.

Recognition of Revenue – Sales are recorded at the time title passes to the customer, which, based on shipping terms, generally occurs when the product is shipped to the customer. Based on prior experience, the Company reasonably estimates its sales returns and warranty reserves. Sales are presented net of discounts and allowances. Discounts and allowances are determined when a sale is negotiated. The Company does not grant its customers or independent representatives the ability to return equipment nor does it grant price adjustments after a sale is complete.

Research and Product Development Expenses – Research and product development expenses represent engineering and other expenditures incurred for developing new products, for refining the Company's existing products and for developing systems to meet unique customer specifications for potential orders or for new industry applications and are expensed as incurred.

Shipping and Handling Costs – Shipping and handling costs are included in cost of sales in the accompanying consolidated statements of operations.

NOTE 3: SEGMENT INFORMATION

The Company operates in two segments: ultrasonic spray coating systems, which is the business of developing, manufacturing, selling, installing and servicing ultrasonic spray coating equipment; and real estate operations, which is the business of owning and operating the Sono-Tek Industrial Park.

All inter-company transactions are eliminated in consolidation. For the twelve months ended February 28, 2015 and 2014, segment information is as follows:

	Twelve Months Ended February 28, 2015				Twelve Months Ended February 28, 2014			
	Ultrasonic Spraying	Rental Real Estate Operations	Eliminations	Consolidated	Ultrasonic Spraying	Rental Real Estate Operations	Eliminations	Consolidated
Net Sales.....	\$10,757,825	\$ 287,948	\$ 196,298	\$10,849,475	\$10,202,273	\$ 217,453	\$ 140,788	\$10,278,938
Rental Expense.....	\$ 196,298	\$ 162,522	\$(196,298)	\$ 162,522	\$ 140,788	\$ 154,792	\$(140,788)	\$ 154,792
Interest Expense	\$ 1,223	\$ 63,304		\$ 64,527	\$ 2,411	\$ 107,740		\$ 110,151
Net Income (Loss) ...	\$ 544,011	\$ 62,122		\$ 606,133	\$ 529,553	\$ (45,079)		\$ 484,474
Assets	\$ 8,076,726	\$2,513,924		\$10,590,650	\$ 7,268,871	\$2,510,290		\$ 9,779,161
Debt.....	\$ 20,542	\$1,457,379		\$ 1,477,922	\$ 81,165	\$ 1,589,360		\$ 1,670,525

NOTE 4: STOCK-BASED COMPENSATION

The Company adopted ASC 718, "Share Based Payments," which requires companies to expense the value of employee stock options and similar awards.

The weighted-average fair value of options has been estimated on the date of grant using the Black-Scholes options-pricing model. The weighted-average Black-Scholes assumptions are as follows:

	Year Ended February 28,	
	2015	2014
Expected life	8 years	8 years
Risk free interest rate7% - .97%	.7%
Expected volatility	23.09% - 53.92%	53.92%
Expected dividend yield	0%	0%

In computing the impact, the fair value of each option is estimated on the date of grant based on the Black-Scholes options-pricing model utilizing certain assumptions for a risk free interest rate, volatility and expected remaining lives of the awards. The assumptions used in calculating the fair value of share-based payment awards represent management's best estimates, but these estimates involve inherent uncertainties and the application of management judgment. As a result, if factors change and the Company uses different assumptions, the Company's stock-based compensation expense could be materially different in the future. In addition, the Company is required to estimate the expected forfeiture rate and only recognize expense for those shares expected to vest. In estimating the Company's forfeiture rate, the Company analyzed its historical forfeiture rate, the remaining lives of unvested options, and the number of vested options as a percentage of total options outstanding. If the Company's actual forfeiture rate is materially different from its estimate, or if the Company reevaluates the forfeiture rate in the future, the stock-based compensation expense could be significantly different from what the Company has recorded in the current period.

For the years ended February 28, 2015 and 2014, net income and earnings per share reflect the actual deduction for stock-based compensation expense. The impact of applying ASC 718 approximated \$42,523 and \$18,127 in additional compensation expense for the years then ended, respectively. Such amount is included in general and administrative expenses on the statement of operations. The expense for stock-based compensation is a non-cash expense item.

NOTE 5: INVENTORIES

Inventories consist of the following:

	February 28,	
	2015	2014
Raw Materials	\$1,676,136	\$1,022,496
Work-in-process	220,577	402,377
Consignment	16,066	25,639
Finished Goods	441,026	419,396
Totals	2,353,805	1,869,908
Less: Allowance	(294,628)	(195,093)
Total Inventories	<u>\$2,059,177</u>	<u>\$1,674,815</u>

NOTE 6: BUILDINGS, EQUIPMENT, FURNISHINGS AND LEASEHOLD IMPROVEMENTS

Equipment, furnishings and leasehold improvements consist of the following:

	February 28,	
	2015	2014
Buildings	\$ 2,250,000	\$ 2,250,000
Laboratory equipment	778,336	708,899
Machinery and equipment	753,279	646,983
Leasehold improvements	308,722	228,860
Tradeshow and demonstration equipment	999,758	999,758
Furniture and fixtures	754,103	674,489
Totals	5,844,198	5,508,988
Less: accumulated depreciation	(3,167,162)	(2,799,975)
	<u>\$ 2,677,036</u>	<u>\$ 2,709,013</u>

Depreciation expense for the years ended February 28, 2015 and 2014 was \$396,576 and \$332,617, respectively.

NOTE 7: ACCRUED EXPENSES

Accrued expenses consist of the following:

	February 28,	
	2015	2014
Accrued compensation	\$ 214,071	\$ 201,676
Estimated warranty costs	36,000	30,900
Accrued commissions	207,236	156,964
Professional fees	51,765	44,692
Other accrued expenses	182,865	130,889
	<u>\$ 691,937</u>	<u>\$ 565,121</u>

NOTE 8: REVOLVING LINE OF CREDIT

The Company has a \$750,000 revolving line of credit at prime which was 3.25% at February 28, 2015. The line of credit is collateralized by all of the assets of the Company, except for the land and buildings. The line of credit is payable on demand and must be retired for a 30 day period once annually. If the Company fails to perform the 30 day annual pay down or if the bank elects to terminate the credit line, the bank may at its option convert the outstanding balance to a 36 month term note with payments including interest in 36 equal installments. As of February 28, 2015, the Company's outstanding balance was \$0, and the unused credit line was \$750,000.

NOTE 9: LONG-TERM DEBT

Long-term debt consists of the following:

	February 28,	
	2015	2014
Equipment loan, bank, collateralized by related production equipment, payable in monthly installments of principal and interest of \$5,158 through June 2015. Interest rate 2.12%. 48 month term.	\$ 20,542	\$ 81,164
Note payable, bank, collateralized by land and buildings, payable in monthly installments of principal and interest of \$16,358 through January 2024. Interest rate 4.15%. 10 year term.	1,457,379	1,589,360
Total long term debt.....	1,477,921	1,670,524
Due within one year	158,184	191,466
Due after one year	<u>\$1,319,737</u>	<u>\$1,479,058</u>

Long-term debt is payable as follows:

Fiscal Year ending February 28,	
2016.....	158,184
2017.....	143,388
2018.....	149,698
2019.....	156,119
2020.....	162,817
Thereafter.....	707,715

NOTE 10: BANK GUARANTEES

As of February 28, 2015, \$43,518 of the Company's cash on deposit with a foreign bank was being utilized to collateralize guarantees issued by the bank in favor of international customers of the Company to secure cash deposits on orders that have been remitted to the Company. The customers may exercise the guarantees, subject to certain performance requirements being met by the Company. The guarantees expire at various dates in 2015.

NOTE 11: COMMITMENTS AND CONTINGENCIES

The Company does not have any material commitments or contingencies as of February 28, 2015.

NOTE 12: INCOME TAXES

The annual provision (benefit) for income taxes differs from amounts computed by applying the maximum U.S. Federal income tax rate of 34% to pre-tax income as follows:

	February 28,	
	2015	2014
Expected federal income tax.....	\$ 288,945	\$ 208,088
State tax, net of federal.....	31,371	12,100
Permanent timing difference	54,218	(6,771)
Research and development tax credits	(155,110)	(82,927)
Income tax	<u>\$ 219,424</u>	<u>\$ 130,490</u>

The net deferred tax asset is comprised of the following:

	February 28,	
	2015	2014
Inventory	\$ 127,000	\$ 103,000
Allowance for accounts receivable.....	17,000	13,000
Accrued expenses and other	97,000	59,000
Research tax credits	59,000	117,000
Deferred tax asset	300,000	292,000
Deferred tax liability	(210,000)	(202,000)
Net deferred tax asset	<u>\$ 90,000</u>	<u>\$ 90,000</u>

At February 28, 2015 and 2014, the Company had no remaining net operating loss carryforwards available.

At February 28, 2015 and 2014, the Company has \$59,000 and \$163,000 of research and development tax credits, respectively, being carried forward.

NOTE 13: STOCKHOLDERS' EQUITY

Stock Options – Under the 2013 Stock Incentive Plan (“2013 Plan”), options can be granted to officers, directors, consultants and employees of the Company and its subsidiaries to purchase up to 2,500,000 shares of the Company's common stock. Under the 2013 Plan options expire ten years after the date of grant. As of February 28, 2015, there were 190,600 options outstanding under the 2013 plan.

Under the 2003 Stock Incentive Plan, as amended (“2003 Plan”), until May 2013, options were available to be granted to officers, directors, consultants and employees of the Company and its subsidiaries to purchase up to 1,500,000 of the Company's common shares. As of February 28, 2015, there were 298,834 options outstanding under the 2003 Plan, under which no additional options may be granted.

Under the 2013 Stock Incentive Plan, option prices must be at least 100% of the fair market value of the common stock at time of grant. For qualified employees, except under certain circumstances specified in the plan or unless otherwise specified at the discretion of the Board of Directors, no option may be exercised prior to one year after date of grant, with the balance becoming exercisable in cumulative installments over a three year period during the term of the option, and terminating at a stipulated period of time after an employee's termination of employment.

During Fiscal Year 2015, the Company granted options for 57,600 shares to officers at an exercise price of \$1.19 and options for 10,000 shares exercisable at \$1.26 to an employee of the Company.

During Fiscal Year 2014, the Company granted options for 135,500 shares exercisable at prices from \$1.05 to \$1.20 to employees of the Company.

A summary of the activity of both plans for the years ended February 28, 2015 and 2014 is as follows:

	Stock Options		Weighted Average Exercise Price		Fair Value
	Outstanding	Exercisable	Outstanding	Exercisable	Vested
Balance – February 28, 2013.....	1,322,718	549,425	\$.67	\$.77	\$.39
Granted	135,500		1.06		
Exercised	(501,645)		(.60)		
Cancelled	(10,000)		(1.11)		
Balance – February 28, 2014.....	946,573	435,714	\$.76	\$.82	\$.41
Granted	67,600		1.20		
Exercised	(478,739)		(.64)		
Cancelled	(46,000)		(1.04)		
Balance – February 28, 2015.....	489,434	353,934	\$.97	\$.86	\$.32

The intrinsic value of the Company's options exercised during the years ended February 28, 2015 and 2014 was \$110,985 and \$157,427, respectively.

Information, at date of issuance, regarding stock option grants for the years ended February 28, 2015:

	Shares	Weighted Average Exercise Price	Weighted Average Fair Value
Year ended February 28, 2015:			
Exercise price exceeds market price	-	-	-
Exercise price equals market price.....	67,600	\$ 1.19	\$.38
Exercise price is less than market price.....	-	-	-

The aggregate intrinsic value of the Company's outstanding options at February 28, 2015 and 2014 was \$191,542 and \$369,659, respectively.

The following table summarizes information about stock options outstanding and exercisable at February 28, 2015:

	Number Outstanding	Weighted Average		Number Exercisable
		Remaining Life in Years	Exercise Price	
Range of exercise prices:				
\$.42 to \$.50	32,000	7.45	\$ 0.47	21,500
\$.51 to \$1.00	207,334	7.25	\$ 0.64	197,334
\$1.01 to \$1.95	250,100	7.27	\$ 1.20	135,100
Total Options:	489,434			353,934

NOTE 14: EARNINGS PER SHARE

The following table sets forth the computation of basic and diluted earnings per share:

	February 28,	
	2015	2014
Numerator for basic and diluted earnings per share	<u>\$ 606,133</u>	<u>\$ 484,474</u>
Denominator for basic earnings per share - weighted average	14,737,204	14,541,869
Effects of dilutive securities:		
Stock options for employees, directors and outside consultants	109,604	38,296
Denominator for diluted earnings per share	<u>14,846,808</u>	<u>14,580,165</u>
Basic Earnings Per Share – Weighted Average	<u>\$ 0.04</u>	<u>\$ 0.03</u>
Diluted Earnings Per Share – Weighted Average	<u>\$ 0.04</u>	<u>\$ 0.03</u>

NOTE 15: SIGNIFICANT CUSTOMERS AND FOREIGN SALES

Export sales to customers located outside the United States were approximately as follows:

	February 28,	
	2015	2014
Western Europe	\$ 2,069,000	\$ 1,817,000
Far East	2,147,000	3,328,000
Other	802,000	1,302,000
	<u>\$ 5,018,000</u>	<u>\$ 6,447,000</u>

During Fiscal Years 2015 and 2014, sales to foreign customers accounted for approximately \$5,018,000 and \$6,447,000, or 47% and 63% respectively, of total revenues.

One customer accounted for 7% of the Company's sales for Fiscal Year ended February 28, 2015.

NOTE 16: SUBSEQUENT EVENTS

The Company has evaluated subsequent events for disclosure purposes.

Common Stock

Our common stock trades under the symbol SOTK on the OTCQX® market. The following table sets forth the range of high and low closing bid quotations for our Common Stock for the periods indicated.

	Years Ended February 28,			
	2015		2014	
	HIGH	LOW	HIGH	LOW
First Quarter	\$ 1.20	\$ 1.04	\$ 0.75	\$ 0.48
Second Quarter	1.29	1.06	0.90	0.72
Third Quarter	1.30	1.05	1.09	0.83
Fourth Quarter	1.24	1.05	1.17	0.90

The above quotations are believed to represent inter-dealer quotations without retail markups, markdowns or commissions and may not represent actual transactions.

As of February 28, 2015, there were 163 shareholders of record of our Common Stock, according to our stock transfer agent. We estimate that we have between 1,000 and 1,400 beneficial shareholders of our common stock. The difference between the shareholders of record and the total shareholders is due to stock being held in street names at our transfer agent.

We have not paid any cash dividends on our Common Stock since inception. We intend to retain earnings, if any, for use in our business and for other corporate purposes.

Corporate Directory

Directors

Christopher L. Coccio, Ph.D. - Chairman and CEO

R. Stephen Harshbarger - President

Joseph Riemer, Ph.D. - Vice President, Food Business Development

Samuel Schwartz - Chairman Emeritus and former Chairman of the Board, retired Chairman and CEO of Krystinel Corporation.

Edward J. Handler, Esq. - Compensation and Audit Committees, retired partner from Kenyon and Kenyon intellectual property law firm, President and COO of The Bronx Project, Inc., past President of the West Point Society of New York.

Eric Haskell, CPA - Audit Committee, former Executive Vice President and Chief Financial Officer of SunCom Wireless Holdings, Inc., former Chief Financial Officer of Systems & Computer Technology Corp.

Philip A. Strasburg, CPA - Chairman of the Audit Committee, Compensation Committee, Certified Public Accountant in New York State, retired partner from the accounting firm of Anchin Block and Anchin, LLP.

Donald F. Mowbray, Ph.D. - Chairman of the Compensation Committee, Independent Consultant, Retired head of General Electric's Corporate R&D Mechanical Engineering Laboratory.

Executive Officers

Christopher L. Coccio, Ph.D. - Chairman and CEO

R. Stephen Harshbarger - President

Joseph Riemer, Ph.D. - Vice President, Food Business Development

Stephen J. Bagley, CPA - Chief Financial Officer

Robb Engle - Vice President, Engineering

Corporate Headquarters

2012 Route 9W

Milton, NY 12547 USA

Phone: 845.795.2020

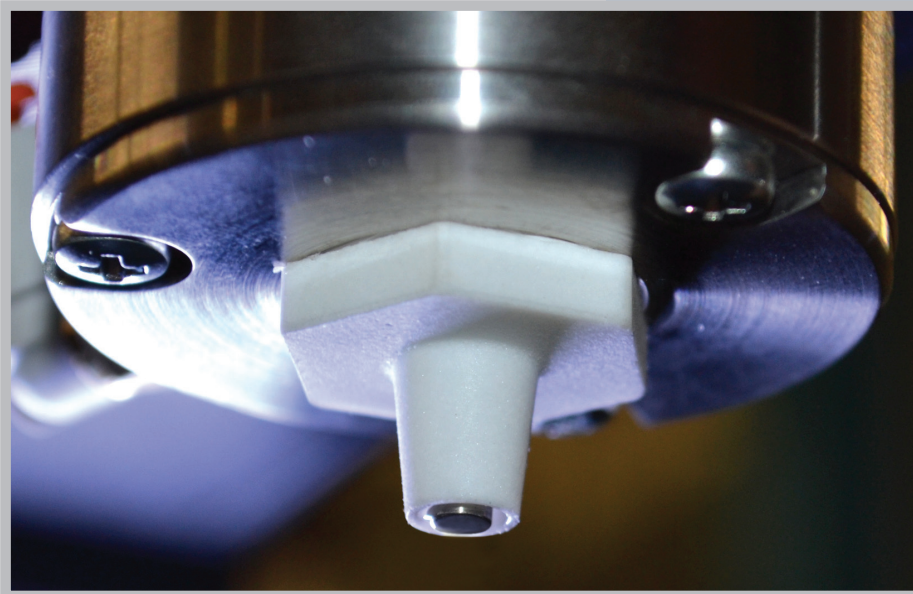
Fax: 845.795.2720

Corporate Website

<http://www.sono-tek.com>

Corporate E-mail

info@sono-tek.com



2012 Route 9W, Milton, NY USA
T (845)795.2020, F (845)795.2720
Email: info@sono-tek.com
Internet: www.sono-tek.com



SONO•TEK CORPORATION